

Message Text

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52

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 FRB-02 INR-10 IO-12 NEA-10 NSAE-00 RSC-01

OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10

SS-15 STR-08 XMB-07 AGR-20 INT-08 RSR-01 TAR-02 /198 W
----- 115207

R 191719 Z APR 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0670

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 02 LONDON 04685

DEPARTMENT PASS TREASURY, COMMERCE, FRB

E. O. 11652: N/A

TAGS: ECON. UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING APRIL 20

BEGIN SUMMARY: FOREIGN EXCHANGE MARKETS WILL BE CLOSED
FRIDAY, APRIL 20, AND MONDAY, APRIL 23, FOR THE EASTER
HOLIDAY AND, THUS, THE FOREIGN EXCHANGE AND BULLION
MARKETS HAVE BEEN RELATIVELY QUIET THIS WEEK. THE
TRADE DEFICIT FOR MARCH JUMPED TO 197 MILLION
POUNDS FROM 77 MILLION POUNDS IN FEBRUARY. WHILE
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INTEREST RATES WERE BEGINNING TO MOVE DOWNWARD AS INDICATED BY THE REDUCTION IN THE MINIMUM LENDING RATE (MLR) TO 8 PER CENT LAST FRIDAY (APRIL 13), THE RATE WAS RAISED ON THURSDAY TO 8-1/4 PER CENT (THE MARKET BEING CLOSED TOMORROW). THE LONDON BUSINESS SCHOOL, IN ITS LATEST FORECAST, SEES GDP GROWING AT 5.8 PER CENT IN 1973 AND AT 4.3 PER CENT IN 1974. THE ELECTRICITY COUNCIL HAS ARRANGED TO BORROW \$1 BILLION ON THE EURO- DOLLAR MARKET, WHICH WILL MAKE A SUBSTANTIAL CONTRIBUTION TO U. K. FOREIGN EXCHANGE RESERVES. END SUMMARY

1. THE POUND MOVED UP SOMEWHAT AT THE BEGINNING OF THE WEEK (TO \$2.4832- L/2 ON TUESDAY), FELL ON WEDNESDAY TO \$2.4819-1/2 AS A RESULT OF THE ANNOUNCEMENT OF THE LARGE TRADE DEFICIT FOR MARCH, BUT ROSE AGAIN ON THURSDAY TO CLOSE AT \$2.4836 AS A RESULT OF THE INCREASE IN THE MLR. GOLD MOVED BETWEEN \$89.37-1/2 AND \$91.25 AND WAS \$90.75 AT THE AFTERNOON FIXING ON THURSDAY.

2. THE U. K. TRADE DEFICIT IN MARCH ROSE TO 197 MILLION POUNDS FROM 77 MILLION POUNDS IN FEBRUARY. THE DETERIORATION REFLECTS A SHARP INCREASE IN IMPORTS - WHICH WERE A RECORD 1,071 MILLION POUNDS (F. O. B., S. A., B/ P BASIS) - AND A SLIGHT REDUCTION IN EXPORTS TO 874 MILLION POUNDS (F. O. B., S. A., B/ P BASIS). AFTER ALLOWING FOR AN ESTIMATED SURPLUS OF 56 MILLION POUNDS ON THE INVISIBLES ACCOUNT, THE CURRENT ACCOUNT DEFICIT FOR MARCH WAS 141 MILLION POUNDS. THE STATISTICS FOR THE FIRST QUARTER AS A WHOLE CONFIRM THAT THERE HAS BEEN A MARKED WORSENING IN THE U. K. BALANCE OF PAYMENTS AS HAD BEEN FORECAST (FOR DETAILS, SEE LONDON 4647).

3. THE RELATIVELY SHARP FALL OF THE MINIMUM LENDING RATE (MLR) FROM 8-1/2 TO 8 PER CENT LAST FRIDAY (APRIL 13) REFLECTED SPECIAL FACTORS OPERATING IN THE TREASURY BILL MARKET, AS WELL AS GENERAL EASING OF THE PRESSURE ON MONEY RATES. THE BANK OF ENGLAND INDICATED CAUTION OVER THE DROP IN THE MLR BY FORCING ONE OR TWO DISCOUNT HOUSES TO BORROW SMALL AMOUNTS

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AT THE OLD MINIMUM LENDING RATE OF 8-1/2 PER CENT

FOR SIX DAYS.

4. THE LATEST FORECAST BY THE LONDON BUSINESS SCHOOL SEES GDP GROWING IN REAL TERMS BY 5.8 PER CENT IN 1973 TO 35,945 MILLION POUNDS AND BY 4.3 PER CENT IN 1974 TO 37,478 MILLION POUNDS (S. A., 1963 PRICES). THEY SEE A CURRENT ACCOUNT DEFICIT OF AROUND 500 MILLION POUNDS IN 1973 WITH SOME SLIGHT IMPROVEMENT IN THE SECOND HALF OF THE YEAR CONTINUING INTO 1974. THEY BELIEVE THAT THE CHANCELLOR WAS RIGHT TO RESIST DEMANDS TO TAKE ANY DEFLATIONARY ACTION IN THE BUDGET AND THAT THE POUND MUST BE ALLOWED TO CONTINUE TO FLOAT.

5. THE RECENT EURODOLLAR BORROWING OF \$1 BILLION BY THE ELECTRICITY COUNCIL IS EXPECTED TO RELIEVE THE DOMESTIC PRESSURES OF THIS YEAR' S LARGE PUBLIC

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INFO OCT-01 EA-11 ADP-00 AID-20 CEA-02 CIAE-00 COME-00

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SS-15 STR-08 XMB-07 AGR-20 INT-08 RSR-01 TAR-02 /198 W

----- 115290

R 191719 Z APR 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0671

INFO AMEMBASSY BERN

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SECTOR BORROWING REQUIREMENTT. THE BORROWING IS BEING
 MANAGED BY LAZARD BROTHERS, WESTERN AMERICAN BANK,
 AND NATIONAL WESTMINSTER AND HAS BEEN FULLY SUBSCRIBED.
 THE PROPOSAL WAS HELPED BY THE RESTORATION IN THE
 BUDGET OF FOREIGN EXCHANGE COVER FOR DOLLAR LOANS
 RAISED BY PUBLIC SECTOR BODIES. UNDER THIS ARRANGEMENT,
 THE TREASURY EFFECTIVELY PROVIDES COVER AGAINST
 FOREIGN EXCHANGE RATE FLUCTUATION FOR DOLLAR
 LOANS OF MORE THAN FIVE YEARS' DURATION. THIS TYPE
 OF BORROWING MAKES A SUBSTANTIAL CONTRIBUTION TO
 U. K. FOREIGN EXCHANGE RESERVES HELPING TO OFFSET THE
 CURRENT ACCOUNT DEFICIT.

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6. THE DISCOUNT ON STERLING REMAINED RELATIVELY
 STABLE THIS WEEK.

	4/12	4/18	CHANGE
1 MONTH	0.47-1/2	0.46-1/2	DOWN 0.01
3 MONTHS	1.43-1/2	1.24-1/2	DOWN 0.19
6 MONTHS	2.97-1/2	2.69-1/2	DOWN 0.28

(ALL FIGURES IN CENTS)

7. LOCAL AUTHORITY DEPOSIT REATES GENERALLY MOVED UP
 DURING THE WEEK, ALTHOUGH THEY WERE DOWN MARGINALLY
 FROM LAST THURSDAY.

	4/12	4/18	CHANGE
1 MONTH	9-5/16	9-7/16	UP 1/8
3 MONTHS	9-7/16	9-3/8	DOWN 1/16
6 MONTHS	7-7/16	9-3/8	DOWN 1/16

8. EURODOLLAR RATES WERE VERY STABLE THIS WEEK.

	4/12	4/18	CHANGE
1 MONTH	7-7/8	7-7/8	UNCHANGED
3 MONTHS	8	8	UNCHANGED
6 MONTHS	8-1/8	8-1/8	UNCHANGED

9. GOLD CLOSED AT \$90.75 ON THURSDAY, DOWN 25 CENTS
 FROM LAST THURSDAY' S CLOSE.

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*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

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Decaption Note:
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Disposition Approved on Date:
Disposition Authority: n/a
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Disposition Comment:
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Disposition Event:
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US Department of State
EO Systematic Review
30 JUN 2005

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Review Withdrawn Fields: n/a
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Status: <DBA CORRECTED> gwr 980203
Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING APRIL 20
TAGS: ECON, UK
To: BERN
BONN
BRUSSELS
COPENHAGEN
DUBLIN
EC BRUSSELS
EUR

LUXEMBOURG
SECSTATE WASHDC

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005